



**CAIRO**COMMUNICATION

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**Interim Management Report at 31 March 2017**

**Cairo Communication S.p.A.**  
Head office: Corso Magenta 55, Milan  
Share capital Euro 6,989,663.10

**Translation into the English language solely for the convenience of international readers**



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## Governance

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### Board of Directors

<b>Urbano Cairo*</b>	Chairman
<b>Uberto Fornara</b>	CEO
<b>Daniela Bartoli</b>	Director
<b>Giuseppe Brambilla di Civesio</b>	Director
<b>Laura Maria Cairo</b>	Director
<b>Roberto Cairo</b>	Director
<b>Marella Caramazza</b>	Director
<b>Massimo Ferrari</b>	Director
<b>Antonio Magnocavallo</b>	Director
<b>Paola Mignani</b>	Director
<b>Marco Pompignoli</b>	Director

### Control and Risk Committee

<b>Paola Mignani</b>	Director
<b>Daniela Bartoli</b>	Director
<b>Antonio Magnocavallo</b>	Director

### Remuneration and Appointments Committee

<b>Marella Caramazza</b>	Director
<b>Daniela Bartoli</b>	Director
<b>Giuseppe Brambilla di Civesio</b>	Director

### Related Party Committee

<b>Massimo Ferrari</b>	Director
<b>Marella Caramazza</b>	Director
<b>Paola Mignani</b>	Director

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### Board of Statutory Auditors

<b>Michele Paolillo</b>	Chairman
<b>Marco Moroni</b>	Standing Auditor
<b>Gloria Marino</b>	Standing Auditor
<b>Laura Guazzoni</b>	Alternate Auditor
<b>Domenico Fava</b>	Alternate Auditor

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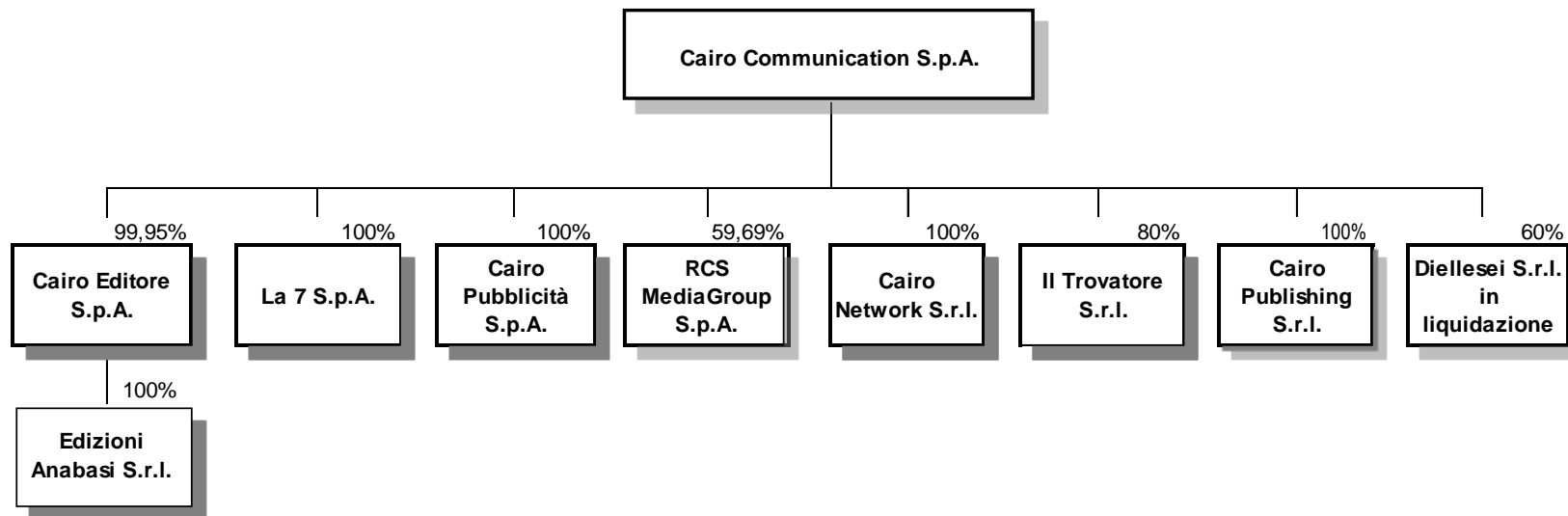
### Audit Firm

**KPMG S.p.A.**

\* Ordinary and extraordinary executive powers exercised with single signatory, as limited by the Board of Directors.



**The Group at 31 March 2017**





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## ***1. Valuation principles and criteria adopted in preparing the Interim Management Report at 31 March 2017***

The financial statements in this Interim Management Report have been prepared following the reclassified statements usually adopted for the “Directors’ Report” and in accordance with international accounting standards.

The Interim Management Report at 31 March 2017 has been prepared in accordance with the requirements set out in Borsa Italiana Notice no. 7587 of 21 April 2016: “*STAR Issuers: information on interim management statements*”.

The consolidated and separate income statement figures in 1Q17 are shown versus 1Q16. Statement of financial position and net equity figures appearing in the financial statements are compared with the figures of the consolidated and separate financial statements at 31 December 2016.

The quarterly financial statements at 31 March 2017, as for those at 31 March 2016, have been prepared net of tax and tax effects.

Mention should be made that in 2016, Cairo Communication acquired the control of RCS MediaGroup S.p.A. (“RCS” or the “RCS Group”) and consolidated the company as from 1 September 2016. The 1Q16 consolidated income statement does not include the RCS results of the January-March 2016 three-month period.

In 2017, there were no changes to the scope of consolidation from the consolidated financial statements for the year ended 31 December 2016.

## ***2. Alternative performance indicators***

In this Interim Management Report, in order to provide a clearer picture of the financial performance of the Cairo Communication Group, besides of the conventional financial indicators required by IFRS, a number of **alternative performance indicators** are shown that should, however, not be considered substitutes of those adopted by IFRS.

The alternative indicators are:

- **EBITDA**: used by Cairo Communication as a target to monitor internal management, and in public presentations (to financial analysts and investors). It serves as a unit of measurement to evaluate Group and Parent operational performance, with the EBIT, and is calculated as follows:

### **Profit from continuing operations, pre tax**

+/- Net finance income



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+/- Share in associates

**EBIT - Operating profit**

+ Amortization & depreciation

+ Bad debt impairment losses

+ Provisions for risks

+ Income (charges) on investments measured at equity

**EBITDA – Operating profit, before amortization, depreciation, write-downs and impairment losses**

EBITDA (earnings before interest, taxes, depreciation and amortization) is not classified as an accounting measure under IFRS, therefore, the criteria adopted for its measurement may not be consistent among companies or different groups.

RCS defines EBITDA as operating profit (EBIT) before depreciation, amortization and impairment losses on fixed assets, and also includes income and charges from investments measured at equity.

The main differences between the two definitions of EBITDA lie in the provisions for risks and in the allowance for bad debt impairment, included in the EBITDA definition adopted by RCS, while they are excluded from the EBITDA definition adopted by Cairo Communication.

Owing to the differences between EBITDA definitions adopted, in this Interim Management Report at 31 March 2017, consolidated EBITDA has been determined consistently with the definition adopted by Cairo Communication.

The Cairo Communication Group also considers the **net financial position (net debt)** as a valid indicator of the Group's financial structure determined as a result of current and non-current financial liabilities, net of cash and cash equivalents and current financial assets.

### ***3. Group performance***

In 1Q17, the Cairo Communication Group operated as a:

- publisher of magazines and books (Cairo Editore/Editoriale Giorgio Mondadori and Cairo Publishing);
- TV (La7, La7d) and Internet (La7.it, TG.La7.it) publisher;
- multimedia advertising broker (Cairo Pubblicità) for the sale of advertising space on TV, in print media, on the Internet and in stadiums;



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- publisher of dailies and magazines (weekly and monthly) with the relating print and online advertising sales, in Italy and in Spain, through RCS, also active in the organization of major world sporting events;
  - network operator (Cairo Network); January 2017 marked the start of the broadcasting of La7 channels on the mux.

With the acquisition of the control of RCS in 2016, Cairo Communication has become a major multimedia publishing group, with a stable, independent leadership, well-positioned to become one of the major player on the Italian market, with a strong international presence in Spain, by leveraging on the high quality and diversification of products in the dailies, magazines, television, web and sport events segments.

In 1Q17, the general economic and financial climate continued to be marked by uncertainty. In Italy, GDP estimates released in April 2017 by the Bank of Italy point to a 0.2% growth versus 4Q16. The growth is driven mainly by the positive trend forecast in the services industry. (Economic Bulletin No. 2 2017 - Bank of Italy - April 2017). In Spain, GDP in 1Q17 grew by 0.8% (preliminary figures from INE - National Institute of Statistics), as in 4Q16. GDP increased by 3% versus 1Q16.

In Italy, in the first three months of 2017, the advertising market fell by 1.6%. The TV advertising market rose slightly (+0.6%), while the magazine and daily newspaper advertising market dropped by 7.7% and 8.9% respectively. The online segment lost 2.6% versus 1Q16 (*AC Nielsen*).

In Spain, where RCS operates through the subsidiary Unidad Editorial, the advertising sales market progressed by 2.2% in 1Q17 versus 1Q16 (*i2p, Arce Media*). Specifically, the daily newspaper and magazine market fell, respectively, by 7.4% and 5.7% versus the same period in 2016. Advertising sales on the Internet, instead, increased by 7.2%.

Economic uncertainty in the short-medium term also hit daily newspaper and magazine sales figures.

Looking at circulation in Italy, the print product market continued its downturn in the first months of 2017. Specifically, the main national generalist newspapers (with a circulation above 50 thousand copies) reported a 15.6% drop in circulation in the first three months of 2017 (including digital copies), while the main sports newspapers fell by 7.3% versus the same period of 2016 (ADS, January-March 2017).



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The same trend was seen in Spain, with newspaper sales down versus 2016. Cumulative figures on circulation at March 2017 (*OJD*) regarding generalist newspapers (generalist newspapers with a circulation above 60 thousand copies), business newspapers and sports newspapers indicate a drop, respectively, of 12.4%, 6% and 11.1%.

In 1Q17:

- the relaunch of RCS continued, whose margins rose sharply versus 1Q16, in line with the forecasts on 2017 performance targets, thanks mainly to the strong commitment towards cutting costs and pursuing opportunities to consolidate and develop revenue. The consolidation of RCS contributed significantly to the growth of the Group's revenue and margins in 1Q17;
- the Cairo Editore magazine publishing segment posted highly positive results, achieved high circulation levels of the publications and continued to work on improving the levels of efficiency reached in containing costs (production, publishing and distribution);
- the TV publishing segment La7 achieved a positive gross operating profit of Euro 0.2 million up versus 2016 (Euro 31 thousand).

Mention should be made that RCS was consolidated as from 1 September 2016. The 1Q16 consolidated income statement does not include the RCS results of the January-March 2016 three-month period. The income statement figures of 1Q17, therefore, cannot be directly compared with the corresponding amounts of 1Q16.

Considering the Group's **entire scope**, in 1Q17, looking at current operations, consolidated gross revenue amounted to approximately Euro 289.8 million (comprising gross operating revenue of Euro 283.5 million and other revenue and income of Euro 6.3 million), rising sharply versus 1Q16 (Euro 63.6 million), due mainly to the consolidation of RCS, which brought an increase of approximately Euro 229.5 million. Gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 18.4 million and Euro -0.2 million (Euro 3.5 million and Euro 1.2 million in 1Q16). Profit attributable to the owners of the parent came to approximately Euro -3.1 million (Euro 1.7 million in 1Q16).

**On a like-for-like basis** with 2016, considering only the Cairo Editore magazine publishing segment, the advertising segment, the TV publishing segment (La7), Il Trovatore and the network operator, consolidated gross revenue amounted to approximately Euro 60.5 million (comprising



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gross operating revenue of Euro 59.2 million and other revenue and income of Euro 1.3 million), down versus 1Q16 (Euro 63.6 million, including gross operating revenue of Euro 62.1 million and other revenue and income of Euro 1.5 million). Gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 3.5 million and Euro 0.3 million (Euro 3.5 million and Euro 1.2 million in 1Q16). Profit attributable to the owners of the parent came to approximately Euro 0.3 million (Euro 1.7 million in 1Q16).

Looking at the business segments, in 1Q17:

- in the **magazine publishing segment (Cairo Editore)**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 2.5 million and Euro 2.2 million (Euro 2.9 million and Euro 2.6 million). The period under review recorded high circulation results, amounting to Euro 17.1 million (Euro 18.4 million in 1Q16); regarding weeklies, with approximately 1.7 million average copies sold in the January-March three-month period of 2017 (ADS), Cairo Editore retains its position as the leading publisher in copies of weeklies sold at newsstands, with an approximately 30% market share. Including the average sales of titles out of the ADS survey (the copies sold of “Enigmistica Più”), average copies sold are approximately 1.8 million;
- in the **TV publishing segment (La7)**, the Group continued to work on strengthening the results of the rationalization and cost-curbing measures achieved in prior years, posting also in 1Q17 a positive gross operating profit (EBITDA) of approximately Euro 0.2 million. Operating profit (EBIT) came to approximately Euro -2.1 million and benefited in the consolidated financial statements, with respect to the separate financial statements of La7 S.p.A., from lower amortization and depreciation of Euro 1 million, due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment in La7. In 1Q16, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 31 thousand and Euro -2 million. Operating profit (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 1.9 million;
- in the **advertising segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 0.7 million and to Euro 0.6 million (Euro 0.6 million and Euro 0.5 million in 1Q16). In 1Q17, gross advertising sales on La7 and La7d channels amounted to Euro 34.8 million (Euro 36.6 million in 1Q16). Advertising revenue on Cairo Editore publications at Group level amounted to Euro 4.9 million (Euro 5.1 million in 2016);





- in the **network operator segment**, the Group company Cairo Network continued implementing the mux, the TV broadcasting system based on digital terrestrial technology; at full performance, the mux will cover at least 94% of the national population, providing high-quality service levels. January 2017 marked the start of the broadcasting of La7 channels on the mux.
- in the **RCS segment**, in the consolidated financial statements of Cairo Communication, gross operating profit (EBITDA) and operating profit (EBIT) from current operations amounted to Euro 14.8 million<sup>1</sup> and to Euro -0.6 million, rising sharply by Euro 16.5 million and Euro 16.9 million<sup>2</sup> versus 1Q16, when RCS had not been included yet in the scope of consolidation of the Cairo Communication Group. The result was achieved thanks mainly to the strong commitment towards cutting costs. Moreover, RCS's seasonality factors generally impact on the results of the first and third quarters of the year. Net operating revenue<sup>3</sup>, amounting to approximately Euro 212 million, dropped overall versus 1Q16 (Euro 218.8 million), mainly due to the termination of a number of advertising sales contracts with third-party publishers (which had generated in 1Q16 revenue of approximately Euro 6.3 million). On a like-for-like basis, net operating revenue generated by RCS in 1Q17 was basically in line with 2016.

In 1Q17, La7's average all-day share was 2.93% and 3.26% in prime time (from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d's share was 0.51% (0.47% in prime time). The audience figures of the channel's news and discussion programmes - such as the 8 PM newscast (5.6% from Monday to Friday), "Otto e mezzo" (5.9%), "Piazza Pulita" (3.7%), "Coffee Break" (4.2%), "Omnibus" (3.9%), "La Gabbia" (2.7%), "L'aria che tira" (5.4%), "Bersaglio Mobile" (3.1%), "Di martedì" (4.8%) - were positive.

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<sup>1</sup> Mention should be made that RCS adopts a different definition of EBITDA from the one used by the Cairo Communication Group, as indicated in the above section "Alternative Performance Indicators". As a result of these differences, which lie in the provisions for risks and in the allowance for bad debt impairment, amounting to Euro 2.7 million in the quarter - EBITDA shown in the RCS Interim Management Report at 31 March 2017, approved on 9 May 2017, amounted to Euro 12.1 million.

<sup>2</sup> Comparison based on the RCS Interim Management Report at 31 March 2017, approved on 9 May 2017 and available on the website [www.rcsmediagroup.it](http://www.rcsmediagroup.it).

<sup>3</sup> In the RCS Interim Management Report at 31 March 2017, approved on 9 May 2017, amounting to Euro 213.4 million, due to the different classification of certain items.



## Cairo Communication Group – Consolidated figures

The main **consolidated income statement figures** in 1Q17 can be compared as follows with those of 1Q16:

(€ millions)	31/03/2017	31/03/2016
Gross operating revenue	283.5	62.1
Advertising agency discounts	(18.4)	(5.8)
Net operating revenue	<b>265.1</b>	<b>56.3</b>
Change in inventory	(0.5)	-
Other revenue and income	6.3	1.5
<b>Total revenue</b>	<b>270.9</b>	<b>57.8</b>
Production cost	(169.1)	(38.1)
Personnel expense	(83.7)	(16.2)
Income (charges) on investments measured at equity	0.3	-
Non-recurring income and charges	-	-
<b>Gross operating profit (EBITDA)</b>	<b>18.4</b>	<b>3.5</b>
Amortization, depreciation, provisions and impairment losses	(18.6)	(2.3)
<b>EBIT</b>	<b>(0.2)</b>	<b>1.2</b>
Net financial income	(6.6)	0.1
Income (loss) on investments	-	-
<b>Pre-tax profit</b>	<b>(6.8)</b>	<b>1.3</b>
Income tax	1.4	0.3
Non-controlling interests	2.3	-
<b>Profit from continuing operations attributable to the owners of the parent</b>	<b>(3.1)</b>	<b>1.7</b>
Profit/ (loss) from discontinued operations attributable to the owners of the parent	-	-
<b>Profit attributable to the owners of the parent</b>	<b>(3.1)</b>	<b>1.7</b>

Mention should be made that RCS was consolidated as from 1 September 2016. The 1Q16 consolidated income statement does not include the RCS results of the January-March 2016 three-month period. The income statement figures of 1Q17, therefore, cannot be directly compared with the corresponding amounts of 1Q16.

In 1Q17, consolidated gross revenue amounted to approximately Euro 289.8 million (comprising gross operating revenue of Euro 283.5 million and other revenue and income of Euro 6.3 million), rising sharply versus 1Q16 (Euro 63.6 million, comprising gross operating revenue of Euro 62.1 million and other revenue and income of Euro 1.5 million), due mainly to the consolidation of RCS, which brought an increase of approximately Euro 229.5 million. Consolidated gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 18.4 million and Euro -0.2 million (Euro 3.5 million and Euro 1.2 million in 1Q16).



As for revenue, the main changes in consolidated gross operating profit (EBITDA) and operating profit (EBIT), as shown in the tables on business segment results, are attributable to the consolidation of RCS. Specifically, the consolidation of RCS brought an increase in production cost of approximately Euro 134.5 million, in personnel expense of approximately Euro 67.5 million, in amortization, depreciation, provisions and impairment losses of approximately Euro 15.5 million, and in costs for financial activities of approximately Euro 6.4 million.

The consolidation of the RCS Group in 1Q16 would have produced, in the quarter ended 31 March 2016, higher consolidated gross revenue of Euro 236 million, and a deterioration of the Group's consolidated net profit of Euro 13.1 million.

As mentioned earlier, in 2016 operating profit (EBIT) in the TV publishing segment (La7) benefited in the consolidated financial statements, with respect to the separate financial statements of La7 S.p.A., from lower amortization and depreciation of Euro 1 million, due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment in La7.

For the same reason, in 1Q16, operating profit (EBIT) in the TV publishing segment (La7) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 1.9 million.

The Group **statement of comprehensive income** can be analyzed as follows:

€ millions	31/03/2017	31/03/2016
<b>Profit for the period</b>	<b>(5.4)</b>	<b>1.7</b>
- Owners of the parent	(3.1)	1.7
- Non-controlling interests - continuing operations	(2.3)	(0.0)
<b>Reclassifiable items in the statement of comprehensive income</b>		
Profit (loss) on cash flow hedging	(0.1)	-
Reclassification of profit (loss) on cash flow hedging	1.0	-
Tax effect	(0.2)	-
<b>Non-reclassifiable items of the statement of comprehensive income</b>		
Actuarial profit (loss) from defined benefit plans	-	-
Tax effect	-	-
<b>Total comprehensive income</b>	<b>(4.7)</b>	<b>1.7</b>
- Owners of the parent	(2.8)	1.7
- Di pertinenza di terzi attribuibile alle attività cessate	-	-
- Non-controlling interests - continuing operations	(1.9)	-
	<b>(4.7)</b>	<b>1.7</b>



The Group's performance can be read better by analyzing the 1Q17 results by **main business segment** (magazine publishing Cairo Editore, advertising Cairo Pubblicità, TV publishing La7, network operator Cairo Network, Il Trovatore and RCS) versus those of 1Q16:

2017 (€ millions)	Magazine Cairo Editore	Advertisi ng	TV publishing La7	RCS	Trovatore	Network operator (Cairo Network)	Non- recurrin unallocat ed	Intra and not allocated	Total
Gross operating revenue	20.8	41.6	24.9	224.5	0.2	2.0	-	(30.5)	283.5
Advertising agency discounts	-	(5.9)	-	(12.5)	-	-	-	-	(18.4)
<b>Net operating revenue</b>	<b>20.8</b>	<b>35.6</b>	<b>24.9</b>	<b>212.0</b>	<b>0.2</b>	<b>2.0</b>	-	<b>(30.5)</b>	<b>265.1</b>
Change in inventories	(0.0)	-	-	(0.5)	-	-	-	-	(0.5)
Other revenue and income	0.9	(0.0)	0.4	5.0	-	0.0	-	-	6.3
<b>Total revenue</b>	<b>21.7</b>	<b>35.6</b>	<b>25.2</b>	<b>216.5</b>	<b>0.2</b>	<b>2.0</b>	-	<b>(30.5)</b>	<b>270.9</b>
Production cost	(14.2)	(32.8)	(16.0)	(134.5)	(0.2)	(1.9)	-	30.5	(169.1)
Personnel expense	(5.0)	(2.1)	(9.1)	(67.5)	(0.0)	(0.0)	-	-	(83.7)
Income (loss) on investments measured at equity	-	-	-	0.3	-	-	-	-	0.3
Non-recurring income (charges)	-	-	-	-	-	-	-	-	-
<b>Gross operating profit (EBITDA)</b>	<b>2.5</b>	<b>0.7</b>	<b>0.2</b>	<b>14.8</b>	<b>0.0</b>	<b>0.1</b>	-	-	<b>18.4</b>
Amortization, depreciation, provisions and impairment losses	(0.3)	(0.1)	(2.3)	(15.5)	0.0	(0.6)	-	-	(18.6)
<b>Operating profit (EBIT)</b>	<b>2.2</b>	<b>0.6</b>	<b>(2.1)</b>	<b>(0.6)</b>	<b>0.0</b>	<b>(0.5)</b>	-	-	<b>(0.2)</b>
Income (loss) on investments	-	-	-	(0.0)	-	-	-	-	(0.0)
Net financial income (loss)	(0.0)	(0.1)	(0.1)	(6.4)	(0.0)	(0.0)	-	-	(6.6)
<b>Pre-tax profit (loss)</b>	<b>2.2</b>	<b>0.5</b>	<b>(2.2)</b>	<b>(7.0)</b>	<b>0.0</b>	<b>(0.5)</b>	-	-	<b>(6.8)</b>
Income tax	(0.7)	(0.2)	0.9	1.3	-	0.1	-	-	1.4
Non-controlling interests	-	-	-	2.3	(0.0)	-	-	-	2.3
<b>Profit from continuing operations attributable to the owners of the parent</b>	<b>1.5</b>	<b>0.4</b>	<b>(1.3)</b>	<b>(3.4)</b>	<b>0.0</b>	<b>(0.4)</b>	-	-	<b>(3.1)</b>
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-	-
<b>Profit for the period attributable to owners of the parent</b>	<b>1.5</b>	<b>0.4</b>	<b>(1.3)</b>	<b>(3.4)</b>	<b>0.0</b>	<b>(0.4)</b>	-	-	<b>(3.1)</b>



2016 (€ millions)	Magazine Cairo Editore	Advertising	TV publishing La7	RCS	Trovatore	Network operator (Cairo Network)	Non- recurring unallocated	Intra and not allocated	Total
Gross operating revenue	22.2	40.9	26.9	-	0.2	0.2	-	(28.3)	62.1
Advertising agency discounts	-	(5.8)	-	-	-	-	-	-	(5.8)
<b>Net operating revenue</b>	<b>22.2</b>	<b>35.1</b>	<b>26.9</b>	<b>-</b>	<b>0.2</b>	<b>0.2</b>	<b>-</b>	<b>(28.3)</b>	<b>56.3</b>
Change in inventories	(0.0)	-	-	-	-	-	-	-	(0.0)
Other revenue and income	0.6	0.1	0.8	-	0.0	0.0	-	-	1.5
<b>Total revenue</b>	<b>22.7</b>	<b>35.2</b>	<b>27.7</b>	<b>-</b>	<b>0.2</b>	<b>0.3</b>	<b>-</b>	<b>(28.3)</b>	<b>57.8</b>
Production cost	(15.0)	(32.6)	(18.4)	-	(0.2)	(0.3)	-	28.3	(38.1)
Personnel expense	(4.9)	(2.0)	(9.3)	-	(0.0)	(0.0)	-	-	(16.2)
Income (loss) on investments measured at equity	-	-	-	-	-	-	-	-	-
Non-recurring income (charges)	-	-	-	-	-	-	-	-	-
<b>Gross operating profit (EBITDA)</b>	<b>2.9</b>	<b>0.6</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>(0.0)</b>	<b>-</b>	<b>-</b>	<b>3.5</b>
Amortization, depreciation, provisions and impairment losses	(0.2)	(0.1)	(2.0)	-	-	-	-	-	(2.3)
<b>Operating profit (EBIT)</b>	<b>2.6</b>	<b>0.5</b>	<b>(2.0)</b>	<b>-</b>	<b>0.0</b>	<b>(0.0)</b>	<b>-</b>	<b>-</b>	<b>1.2</b>
Income (loss) on investments	-	-	-	-	-	-	-	-	-
Net financial income (loss)	(0.0)	0.0	0.1	-	(0.0)	-	-	-	0.1
<b>Pre-tax profit (loss)</b>	<b>2.6</b>	<b>0.6</b>	<b>(1.8)</b>	<b>-</b>	<b>0.0</b>	<b>(0.0)</b>	<b>-</b>	<b>-</b>	<b>1.3</b>
Income tax	(0.9)	(0.2)	1.5	-	(0.0)	0.0	-	-	0.3
Non-controlling interests	-	-	-	-	(0.0)	-	-	-	(0.0)
<b>Profit from continuing operations attributable to the owners of the parent</b>	<b>1.7</b>	<b>0.3</b>	<b>(0.3)</b>	<b>-</b>	<b>0.0</b>	<b>(0.0)</b>	<b>-</b>	<b>-</b>	<b>1.7</b>
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-	-
<b>Profit for the period attributable to owners of the parent</b>	<b>1.7</b>	<b>0.3</b>	<b>(0.3)</b>	<b>-</b>	<b>0.0</b>	<b>(0.0)</b>	<b>-</b>	<b>-</b>	<b>1.7</b>

#### 4. Consolidated statement of financial position

The main figures of the consolidated **statement of financial position** at 31 March 2017 can be analyzed versus the situation at 31 December 2016:

(€ millions)	31/03/2017	31/12/2016
<b>Statement of financial position</b>		
Property, plant and equipment	107.6	111.4
Intangible assets	709.9	717.4
Financial assets	73.7	73.5
Deferred tax assets	127.5	126.2
Net current assets	(105.6)	(95.4)
<b>Total assets</b>	<b>913.1</b>	<b>933.1</b>
Non-current borrowings and provisions	185.9	193.9
(Net financial position)/Net debt	345.4	352.6
Equity attributable to the owners of the parent	340.7	343.6
Equity attributable to non-controlling interests	41.1	43.0
<b>Total equity and liabilities</b>	<b>913.1</b>	<b>933.1</b>

At the date of preparing this Interim Management Report, the determination of the fair value of RCS assets and liabilities required in the application of the "acquisition method" under IFRS 3 is still in progress; the difference between the value of the investment in RCS and the consolidated



pro rata equity of the RCS Group at the combination date has been provisionally booked to “consolidation differences”. The determination requirements under IFRS 3, once completed, may result in a different measurement of the assets and liabilities of the RCS Group at the date of the business combination, with resulting operating and financial effects, including the amortization of any assets with finite useful life, as from the combination date, which may also be of a significant level. Further analysis is in progress with regard to the possible alternative accounting approach in consolidation (proportional or full approach, so-called “full goodwill”).

Mention should be made that, at their Meeting on 8 May 2017, the shareholders approved the distribution of a dividend of Euro 0.05 per share, inclusive of tax, with coupon detachment date on 22 May 2017. At 31 March 2017, this amount, equal to Euro 6.7 million, was still included in the equity reserves.

In 2017, as part of the share buy-back plans, no treasury shares were sold or purchased. At 31 March 2017, Cairo Communication held a total of no. 779 treasury shares, or 0.001% of the share capital, subject to art. 2357-ter of the Italian Civil Code.

### **5. Consolidated net financial position**

The consolidated **net financial position** at 31 March 2017, versus the situation at 31 December 2016, is summarized as follows:

<b>Net financial debt</b> (€ millions)	<b>31/03/2017</b>	<b>31/03/2016</b>	<b>Change</b>
Cash and cash equivalents	130.8	124.8	6.0
Other current financial assets and financial receivables	0.6	1.2	(0.6)
Current financial payables	(76.5)	(110.1)	33.6
<b>Current net financial position (Net financial debt)</b>	<b>55.0</b>	<b>15.9</b>	<b>39.1</b>
Non-current financial payables	(396.4)	(363.4)	(33.0)
Non-current financial assets and liabilities for derivatives	(4.0)	(5.1)	1.1
<b>Non-current net financial position (Net financial debt)</b>	<b>(400.4)</b>	<b>(368.5)</b>	<b>(31.9)</b>
<b>Net financial position (Net financial debt) from continuing operations</b>	<b>(345.4)</b>	<b>(352.6)</b>	<b>7.2</b>

At 31 March 2017, the net debt of RCS came to Euro 367.6 million (Euro 366.1 million at 31 December 2016).



## 6. Revenue

Gross operating revenue in 1Q17, split up by main business segment, can be analyzed as follows versus the amounts of 1Q16:

2017 (€ millions)	Magazine Cairo Ed.	Advertising	TV publishing La7	RCS	Trovatore	Network operator	Intra and not allocated	Total
TV advertising	-	35.6	24.0	0.7	-	-	(24.3)	36.0
Print media and online advertising	3.8	5.0	0.4	96.3	-	-	(3.8)	101.7
Advertising from sporting events	-	-	-	10.0	-	-	-	10.0
Stadium signage	-	0.7	-	-	-	-	-	0.7
Revenue from concession of programming :	-	-	0.2	-	-	-	-	0.2
Other TV revenue	-	-	0.3	8.3	-	-	-	8.6
Magazine over-the-counter sales and subsc	17.1	-	-	84.9	-	-	(0.1)	101.9
Books and catalogues	0.2	-	-	1.3	-	-	-	1.5
Other revenue from sporting events	-	-	-	14.9	-	-	-	14.9
VAT relating to publications	(0.3)	-	-	(1.3)	-	-	-	(1.6)
Other revenue	-	0.3	-	9.4	0.2	-	(0.3)	9.6
Revenue for network services	-	-	-	-	-	2.0	(2.0)	-
<b>Total gross operating revenue</b>	<b>20.8</b>	<b>41.6</b>	<b>24.9</b>	<b>224.5</b>	<b>0.2</b>	<b>2.0</b>	<b>(30.5)</b>	<b>283.5</b>
Other revenue	0.9	(0.0)	0.4	5.0	-	0.0	-	6.3
<b>Total gross operating revenue</b>	<b>21.7</b>	<b>41.6</b>	<b>25.3</b>	<b>229.5</b>	<b>0.2</b>	<b>2.0</b>	<b>(30.5)</b>	<b>289.8</b>

2016 (€ millions)	Magazine Cairo Ed.	Advertising	TV publishing La7	RCS	Trovatore	Network operator	Intra and not allocated	Total
TV advertising	-	34.6	26.4	-	-	-	(23.8)	37.2
Print media and online advertising	4.0	5.2	-	-	-	-	(4.1)	5.1
Advertising from sporting events	-	-	-	-	-	-	-	-
Stadium signage	-	1.0	-	-	-	-	-	1.0
Revenue from concession of programming :	-	-	0.1	-	-	-	-	0.1
Other TV revenue	-	-	0.3	-	-	-	-	0.3
Magazine over-the-counter sales and subsc	18.4	-	-	-	-	-	-	18.4
Books and catalogues	0.1	-	-	-	-	-	-	0.1
Other revenue from sporting events	-	-	-	-	-	-	-	-
VAT relating to publications	(0.3)	-	-	-	-	-	-	(0.3)
Other revenue	-	0.2	-	-	0.2	-	(0.2)	0.2
Revenue for network services	-	-	-	-	-	0.2	(0.2)	-
<b>Total gross operating revenue</b>	<b>22.2</b>	<b>40.9</b>	<b>26.9</b>	<b>-</b>	<b>0.2</b>	<b>0.2</b>	<b>(28.3)</b>	<b>62.1</b>
Other revenue	0.6	0.1	0.8	-	-	-	-	1.5
<b>Total gross operating revenue</b>	<b>22.8</b>	<b>41.0</b>	<b>27.7</b>	<b>-</b>	<b>0.2</b>	<b>0.2</b>	<b>(28.3)</b>	<b>63.6</b>

### MAGAZINE PUBLISHING CAIRO EDITORE

#### *Cairo Editore - Cairo Publishing*

Cairo Editore operates in the magazine publishing field through (i) the weeklies “Settimanale DIPIU’”, “DIPIU’ TV”, and bi-weekly supplements “Settimanale DIPIU’ e DIPIU’TV Cucina”



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and “Settimanale DIPIU’ e DIPIU’TV Stellare”, “Diva e Donna”, “TV Mia”, “Settimanale Nuovo”, “F”, “Settimanale Giallo” and “NuovoTV”, “Nuovo e Nuovo TV Cucina” and “Enigmistica Più”), and (iii) through its Editoriale Giorgio Mondadori division with the monthlies “Bell’Italia”, “Bell’Europa”, “In Viaggio”, “Airone”, “Gardenia”, “Arte” and “Antiquariato”.

In 1Q17, Cairo Editore strengthened the results of its publications and worked on improving the levels of efficiency reached in containing production, publishing and distribution costs, and continued to achieve highly positive business results.

In 1Q17, gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 2.5 million and to approximately Euro 2.2 million (Euro 2.9 million and Euro 2.6 million in 1Q16).

The Group weeklies reported high circulation results, with an average ADS circulation in the January-March three-month period of 2017 of 445,663 copies for “Settimanale DIPIU’”, 264,070 copies for “DIPIU’ TV”, 141,746 copies for “Settimanale DIPIU’ e DIPIU’TV Cucina”, 165,250 copies for “Diva e Donna”, 205,148 copies for “Settimanale Nuovo”, 110,970 copies for “F”, 115,873 copies for “TVMia”, 88,368 copies for “Settimanale Giallo”, 104,683 copies for “NuovoTV” and 60,277 copies for “Nuovo e Nuovo TV Cucina”, reaching a total of approximately 1.7 million average copies sold, and making the Group the leading publisher in copies of weeklies sold at newsstands, with an approximately 30% market share. Including even the average sales of titles out of the ADS survey, i.e. average copies of “Enigmistica Più”, average copies sold are approximately 1.8 million.

As far as circulation is concerned, the features of Cairo Editore publications and its strategy help maintain a strong lead over competitors in the current publishing market. Specifically:

- cover prices of the weeklies are lower, some half the price of those of the main competitors; this gap increases appeal and allows space for potential price increases, hence for increased profitability;
- sales are mostly over-the-counter (95%), with a minimum impact of revenue generated by gifts and sundry editorial material (approximately 2% on total publishing revenue, including advertising); the Group has opted to focus on the quality of its publications; in 2016, gross advertising revenue generated by the Group’s publications accounted for approximately 26% - an extremely low figure, therefore based to a lesser extent on the economic cycle - while the remaining 74% came from direct sales and subscriptions, proof of the high editorial quality of publications;





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- weekly magazines, which account for approximately 90% of publishing sales revenue, are sold as single copies and not bundled with other weeklies and/or dailies to bolster sales;
  - the remarkable sales volumes achieved, both in absolute terms and versus Cairo Editore's competitors, make the advertising pages highly appealing in terms of advertising cost per copy sold (equal to the difference between the price of the advertising page and copies sold), currently lower than the publications of its competitors.

In 2017, Cairo Editore's strategy will continue to focus on the following elements: (i) the central importance of the quality of the products, (ii) supporting the circulation levels of its own publications, including through investments in print runs, communication and quality of editorial content, (iii) the attention to costs in general, and production costs in particular, with a view towards the continuous improvement of industrial, publishing and procurement conditions and processes, and (iv) the continued extension and increase in quality of the product portfolio in order to capture the market segments with greater potential.

#### ADVERTISING

Looking at the advertising segment, in 2017 the Cairo Communication Group continued to operate as advertising broker - with its subsidiary Cairo Pubblicità - selling space in the print media for Cairo Editore and for Editoriale Genesis ("Prima Comunicazione" and "Uomini e Comunicazione"), for the sale of advertising space on TV for La7 and La7d, and for Turner Broadcasting (Cartoon Network and Boomerang), on the Internet (Cartoon Network.it) and for the sale of stadium signage and space at the Olimpico in Turin for Torino FC.

In 1Q17, gross advertising sales on La7 and La7d channels amounted to Euro 34.8 million (Euro 36.6 million in 1Q16). Gross advertising revenue on Cairo Editore publications at Group level amounted to Euro 4.9 million (Euro 5.1 million in 1Q16).

Gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 0.7 million and to Euro 0.6 million (Euro 0.6 million and Euro 0.5 million in 1Q16).

#### TV PUBLISHING (La7)

The Group started operations in the TV field in 2013, following acquisition from Telecom Italia Media S.p.A. of the entire share capital of La7 S.r.l. as from 30 April 2013, with the upstream



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integration of its concessionaire business for the sale of advertising space, diversifying its publishing activities previously focused on magazines.

At the acquisition date, the financial situation of La7 had called for the implementation of a restructuring plan aimed at reorganizing and streamlining the corporate structure and at curbing costs, while retaining the high quality levels of the programming.

Starting from May 2013, the Group began to implement its own plan to restructure the company, achieving, as early as the May-December eight-month period of 2013, a positive gross operating profit (EBITDA), as in 2014, 2015 and 2016, when the results of the cost rationalization measures implemented were strengthened.

In 1Q17, the TV publishing segment (La7) achieved a positive gross operating profit (EBITDA) of approximately Euro 0.2 million (Euro 31 thousand in 1Q16). Operating profit (EBIT) came to approximately Euro -2.1 million and benefited in the consolidated financial statements, with respect to the separate financial statements of La7 S.p.A., from lower amortization and depreciation of Euro 1 million, due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment in La7. In 1Q16, gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 31 thousand and Euro -2 million. Operating profit (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 1.9 million.

In 1Q17, La7's average all-day share was 2.93% and 3.26% in prime time (from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d's share was 0.51% (0.47% in prime time). The audience figures of the channel's news and discussion programmes - such as the 8 PM newscast (5.6% from Monday to Friday), "Otto e mezzo" (5.9%), "Piazza Pulita" (3.7%), "Coffee Break" (4.2%), "Omnibus" (3.9%), "La Gabbia" (2.7%), "L'aria che tira" (5.4%), "Bersaglio Mobile" (3.1%), "Di martedì" (4.8%) - were positive.

From 2017, the Group may benefit from the opportunity represented by the bandwidth availability resulting from the implementation of the Cairo Network mux. In 2016, La7 incurred approximately Euro 13 million in annual costs to use 7.2 Mbit/s provided by third party operators. The contract entered into with EI Towers S.p.A. to manage the full service of the mux provides for a cost of Euro 7 million for these services for 2017.

Development initiatives are planned for La7, with development in revenue concentrated on (i) creating new programs, (ii) maximizing audience potential on the La7d channel, (iii) the possible launch of new channels and strengthening digital presence.



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## RCS

As mentioned earlier, in 2016 the Group started operations in the daily newspaper publishing segment with the acquisition of the control of RCS.

RCS, both directly and indirectly through its subsidiaries, publishes and distributes - in Italy and Spain - daily newspapers and magazines (weeklies and monthlies), and is also involved in print media and online advertising sales, and in the distribution of editorial products at newsstands.

Specifically, in Italy RCS publishes the dailies *Corriere della Sera* and *La Gazzetta dello Sport*, as well as various weeklies and monthlies such as *Amica*, *Living*, *Style Magazine*, *Dove*, *Oggi*, *Io Donna*, *Sportweek*, *Sette* and *Abitare*.

In Spain, RCS operates through its subsidiary Unidad Editorial S.A., publisher of the dailies *El Mundo*, *Marca* and *Expansion*, as well as various magazines such as *Telva*, *YoDona*, *Marca Motor* and *Actualidad Económica*.

In Italy, RCS has also minor operations on the pay TV market through its subsidiary Digicast S.p.A. on the TV satellite channels *Lei*, *Dove*, *Caccia* and *Pesca*, and on the web TV channel of *Corriere della Sera* and *La Gazzetta dello Sport*.

In Spain, it is active with the leading national sports radio *Radio Marca* and the web TV of *El Mundo*, and broadcasts the two digital TV channels *GOL Television* and *Discovery max* on the Veo multiplex.

RCS also organizes, through RCS Sport, major world sporting events (such as *Giro d'Italia*, the *Dubai Tour*, the *Milano City Marathon* and the *Color Run*), and is well-positioned as a partner in the creation and organization of events through RCS Live. In Spain, through its subsidiary Last Lap, RCS is involved in the organization of mass events.

RCS generated negative results prior to 2016, and an operational restructuring process is currently underway (aimed at restoring profitability). In 2016, net profit amounted to Euro 3.5 million, marking a return to positive territory by the Group, the first time since 2010.

Mention should be made that RCS was consolidated in the Cairo Communication Group as from 1 September 2016. The 1Q16 consolidated income statement, therefore, does not include the RCS results of the January-March 2016 three-month period.

In 1Q17, in a persistently challenging market marked by uncertainty, RCS achieved - in the consolidated financial statements of Cairo Communication - gross operating profit (EBITDA) of



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approximately Euro 14.8 million<sup>4</sup> and operating profit (EBIT) of Euro -0.6 million, up by Euro 16.5 million and Euro 16.9 million<sup>5</sup>, respectively, versus 1Q16, in line with the forecasts on 2017 performance targets, thanks mainly to the strong commitment towards cutting costs and pursuing opportunities to increase and develop revenue. Moreover, RCS's seasonality factors generally impact on the results of the first and third quarters of the year.

In 1Q17, RCS consolidated net revenue amounted to approximately Euro 212 million<sup>6</sup>, dropping by 3.1% versus 1Q16, mainly due to the termination of a number of advertising sales contracts with third-party publishers (which had generated in 1Q16 revenue of approximately Euro 6.3 million). On a like-for-like basis, net operating revenue generated by RCS in 1Q17 was basically in line with 2016.

Specifically, in the quarter, net consolidated revenue is ascribable to publishing revenue of Euro 84.7 million (-9.6%<sup>5</sup> versus 1Q16), to advertising revenue of Euro 92.8 million (-4.7%<sup>5</sup> versus 1Q16), and to other revenue of Euro 34.5 million (+24.5%<sup>5</sup>). Other revenue is mainly ascribable to the events organized by RCS Sport, by Last Lap in Spain and to Veo TV revenue.

Approximately Euro 3 million of the change in publishing revenue is due to the different publishing plan on add-on products (marked each year by the launch of new, different works, which cannot easily be compared to the prior year) and to promotions (due to a different promotional policy, which improved margins).

At circulation level, the dailies *Corriere della Sera*, *La Gazzetta dello Sport*, *Marca* and *Expansión* continue to lead their respective segments, while *El Mundo* is the second most popular general daily in Spain. In Italy, ADS market surveys for the first quarter show a far better circulation trend in the newsstand channel of both *Corriere della Sera* and *La Gazzetta dello Sport* than direct competitors, with a drop versus 1Q16 of 3.9% and 5.1%, respectively. In 1Q17, total average copies sold of *Corriere della Sera* amounted to 348 thousand, including 109 thousand average digital copies, while total average copies sold by *La Gazzetta dello Sport* amounted to 180 thousand, including 19 thousand average digital copies (Internal Source).

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<sup>4</sup> Mention should be made that RCS adopts a different definition of EBITDA from the one used by the Cairo Communication Group, as indicated in the above section "Alternative Performance Indicators". As a result of these differences, which lie in the provisions for risks and in the allowance for bad debt impairment, amounting to Euro 2.7 million in the quarter - EBITDA shown in the RCS Interim Management Report at 31 March 2017, approved on 9 May 2017, amounted to Euro 12.1 million

<sup>5</sup> Comparison based on the RCS Interim Management Report at 31 March 2017, approved on 9 May 2017 and available on the website [www.rcsmediagroup.it](http://www.rcsmediagroup.it).

<sup>6</sup> In the RCS Interim Management Report at 31 March 2017, approved on 9 May 2017, amounting to Euro 213.4 million, due to the different classification of certain items



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Additionally, the main digital performance indicators show, in 1Q17, average unique browsers/month of the *corriere.it* website at 43.4 million (+8.3% versus 1Q16) and average unique browsers/weekdays at 2.9 million, up by 10.9% versus 1Q16 (*Omniture*). Likewise, average unique mobile browsers/month of the *Corriere Mobile* website grew by 31.9% versus 1Q16, reaching 22.5 million (*Omniture*).

The paying subscribers to *Corriere della Sera Membership* are 35 thousand (Internal Source).

In 1Q17, the *gazzetta.it* website reported average unique browsers/month of 24.2 million (+1.6% versus 1Q16). Average unique browsers/weekdays were 2 million, up by 4.7% versus 1Q16 (*Omniture*).

*Gazzetta Mobile* reached 12.1 million unique browsers, growing by 10.7% versus 1Q16 (*Omniture*).

The average daily circulation of copies (*OJD*) of *El Mundo* and *Expansion* (including digital copies) amounted to 122 thousand and 36 thousand, respectively; copies of the sports daily *Marca* amounted to approximately 135 thousand including digital copies (*OJD*). On the web, average unique browsers/month (*Omniture*) of *elmundo.es* were 48.7 million in 1Q17 (+17.4% versus 1Q16), and average unique browsers/day (Monday to Sunday) were 3.3 million (+13.2% versus 1Q16). At end March 2017, *marca.com* reached 41.3 million average unique browsers/month (+13% versus 1Q16), while the average unique browsers/day (Monday to Sunday) were 4.5 million, up by 10.3% versus 1Q16. Average unique browsers/month of *expansion.com* were 11.3 million in 1Q17, up by 30.5% versus 1Q16, while average unique browsers/day (Monday to Sunday) were 0.7 million (+25.7% versus 1Q16). All three websites reported a sharp rise in accesses through mobile devices, with a monthly increase of 37% for *El Mundo*, 29.7% for *Marca* and 35.8% for *Expansion*.

The change in other revenue is mostly attributable to the Sports area, as a result of the earlier Abu Dhabi Tour cycling calendar, which, until last year, was held in October.

At 31 March 2017, the net financial position came to Euro -367.6 million, versus Euro -366.1 million at 31 December 2016. Improved ordinary operations (Euro 10 million) offset the previously booked outlays for technical investments and non-recurring charges.

RCS is currently focusing on enhancing the value of editorial content, developing existing brands, and launching new projects, with a constant eye on cutting costs. Noteworthy points for *Corriere della Sera* were the remarkable advertising and readership figures achieved by *L'Economia*, the new Monday business add-on, and the success of the major event *Food: Cibo a Regole d'Arte*, which offered the over 12,000 participants in March the best in national and



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international cuisine and food. *Corriere* readers were further indulged by *Sette*, the analysis news magazine, from end April out on newsstands on Thursdays, fully revamped under Editor-in-Chief Beppe Severgnini. *Gazzetta dello Sport* launched the new analysis supplement *V Come Volley* and the new geo-location initiative with a daily page on local football teams. The Spanish daily *Marca* also launched a new multimedia information portal in Mexico in partnership with *Claro*. On the magazines front, out on newsstands from 5 May, the new fully revamped *Insieme*, the long-standing monthly for the family.

#### NETWORK OPERATOR (CAIRO NETWORK)

As mentioned earlier, the Group company Cairo Network, which took part in 2014 in the tender procedure opened by the Ministry of Economic Development for the assignment of rights to use TV frequencies for digital terrestrial broadcasting systems, winning the rights to use a lot of frequencies (“mux”) for a period of 20 years, and entering in January 2015 with EI Towers S.p.A. into an agreement for the realization and subsequent long-term technical management in full service mode (hospitality, service and maintenance, use of broadcasting infrastructure, etc.) of the electronic communications network for the broadcasting of audiovisual media services on frequencies allocated, continued implementing the mux; at full performance, the mux will cover at least 94% of the national population, providing high-quality service levels.

With the implementation of the mux, the Cairo Communication Group will have at its autonomous disposal a broadcasting capacity of about 22.4 Mbps versus the 7.2 Mbps provided until 2016 by external operators.

January 2017 marked the start of the broadcasting of La7 channels on the mux. The remaining capacity could be used to broadcast new channels if the Cairo Communication Group were to launch any, and to provide third parties with broadcasting capacity.

#### IL TROVATORE

In 2017, Il Trovatore continued operations, mainly providing technological services to develop and maintain the online platforms of the Group’s companies.

### ***7. Income statement figures of the Parent***

The main **income statement figures of Cairo Communication S.p.A.** in 1Q17 can be compared as follows with those of 1Q16:



(€ millions)	31/03/2017	31/03/2016
Gross operating revenue	26.5	26.3
Advertising agency discounts	-	-
<b>Net operating revenue</b>	<b>26.5</b>	<b>26.3</b>
Other revenue and income	0.1	-
<b>Total revenue</b>	<b>26.6</b>	<b>26.3</b>
Production cost	(25.7)	(25.1)
Personnel expense	(0.7)	(0.7)
<b>Gross operating profit (EBITDA)</b>	<b>0.2</b>	<b>0.4</b>
Amortization, depreciation, provisions and impairment losses	(0.1)	(0.1)
<b>EBIT</b>	<b>0.1</b>	<b>0.3</b>
Net financial income	-	-
Income (loss) on investments	(0.1)	0
<b>Pre-tax profit</b>	<b>0.0</b>	<b>0.3</b>
Income tax	-	(0.1)
<b>Profit from continuing operations</b>	<b>0.0</b>	<b>0.2</b>
Loss from discontinued operations	-	-
<b>Profit</b>	<b>0.0</b>	<b>0.2</b>

In 1Q17, Cairo Communication continued to operate in TV advertising sales (La7, La7d and theme channels Cartoon Network and Boomerang) and on the Internet through its subsidiary Cairo Pubblicità on a sub-concession basis, invoicing advertising spaces directly to its customers and returning to Cairo Communication a share of revenue generated by resources managed on a sub-concession basis. Specifically:

- gross operating revenue was approximately Euro 26.6 million (Euro 26.3 million in 1Q16);
- looking at current operations, gross operating profit (EBITDA) was approximately Euro 0.2 million (Euro 0.4 million in 1Q16);
- operating profit (EBIT) was approximately Euro 0.1 million (Euro 0.3 million in 1Q16), while profit ended basically at breakeven (Euro 0.2 million in 1Q16).

The Parent **statement of comprehensive income** can be analyzed as follows:

(€ millions)	31/03/2017	31/03/2016
<b>Statement of comprehensive income of the Parent</b>		
Profit	<b>0.0</b>	<b>0.2</b>
<i>Other non-reclassifiable items of the comprehensive income statement</i>		
Actuarial profit (loss) from defined benefit plans	-	-
-Tax effect	-	-
<b>Total comprehensive income</b>	<b>0.0</b>	<b>0.2</b>



## 8. Statement of financial position of Cairo Communication S.p.A.

The main figures of the **statement of financial position** of Cairo Communication S.p.A. at 31 March 2017 can be analyzed versus the situation at 31 December 2016:

(€ millions)	31/03/2017	31/12/2016
<b>Statement of financial position</b>		
Property, plant and equipment	0.4	0.4
Intangible assets	0.2	0.3
Financial assets	329.1	328.1
Other non-current financial assets	13.8	12.8
Net current assets	(12.8)	(8.1)
<b>Total assets</b>	<b>330.7</b>	<b>333.5</b>
Non-current borrowings and provisions	1.4	1.4
(Net financial position)/Net debt	71.2	73.8
Equity	258.3	258.3
<b>Total equity and liabilities</b>	<b>330.7</b>	<b>333.5</b>

Mention should be made that, at their Meeting on 8 May 2017, the shareholders approved the distribution of a dividend of Euro 0.05 per share, inclusive of tax, equal to total Euro 6,7 million, with coupon detachment date on 22 May 2017.

## 9. Net financial position of Cairo Communication S.p.A.

The **net financial position** of the Parent at 31 March 2017, versus the situation at 31 December 2016, is summarized as follows:

(€ millions)	31/03/2017	31/12/2016	Change
Liquid funds	7.0	4.4	2.6
Current financial assets	-	-	-
Non-current financial payables	(78.2)	(78.2)	-
<b>Total</b>	<b>(71.2)</b>	<b>(73.8)</b>	<b>2.6</b>

Non-current financial payables relate to the revolving facility (of a total amount of Euro 140 million) drawn down for Euro 78,2 million to fund the cash component of the offer to acquire the control of RCS and usable also for other general corporate matters.

## 10. Transactions with parents, subsidiaries and associates

The following are identified as related parties:





- the direct and indirect parent entities of Cairo Communication S.p.A., their subsidiaries, associates and affiliates of the Group. The Ultimate Parent of the Group is U.T. Communications S.p.A.;
- key management personnel and their close relations.

It should also be noted that, based on the Related Party Procedure adopted by the RCS Group, all RCS shareholders (and the associated corporate groups composed of parents and subsidiaries, including indirect, and of jointly-controlled companies) that have a stake with voting rights in RCS exceeding 3%, excluding intermediaries that perform asset management activities, where the independence conditions required by the Issuer Regulations are satisfied, have been classified as related parties.

Details are provided in the following tables, broken down by balance sheet lines.

<b>Receivables and financial assets</b> (€ millions)	<b>Trade receivables and other receivables</b>	<b>Receivables tax consolidation</b>	<b>Other current financial assets</b>
Parents	-	0.9	-
Associates	24.5	-	0.1
Other affiliates	0.2	-	-
Other related parties	1.4	-	-
<b>Total</b>	<b>26.1</b>	<b>0.9</b>	<b>0.1</b>

<b>Payables and financial liabilities</b> (€ millions)	<b>Trade payables and other payables</b>	<b>Other current financial liabilities</b>	<b>Other non-current financial liabilities</b>
Parents	-	-	-
Associates	14.4	10.4	-
Other affiliates	1.7	-	-
Other related parties	0.1	1.0	13.5
<b>Total</b>	<b>16.2</b>	<b>11.4</b>	<b>13.5</b>

<b>Revenue and costs</b> (€ millions)	<b>Operating revenue</b>	<b>Operating costs</b>	<b>Financial expense</b>
Parents	-	-	-
Associates	52.9	(9.1)	-
Other affiliates	-	(0.6)	-
Other related parties	0.9	(0.2)	(0.4)
<b>Total</b>	<b>0.9</b>	<b>(9.9)</b>	<b>(0.4)</b>



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Transactions with associates refer primarily to:

- m-dis Distribuzione Media S.p.A., which operates in Italy as distributor in the newsstand channel for the RCS Group, in respect of which Group companies generated revenue of Euro 52.4 million and incurred costs of Euro 2.6 million in the 1 January 2017 - 31 March 2017 period, and hold trade receivables of Euro 24.3 million, current financial liabilities of Euro 6.3 million and trade payables of Euro 1.9 million;
- the associates in the Bermont Group, in respect of which the Group companies that operate in Spain in the printing of newspapers, magazines and other publishing products (Unidad Editorial Group) generated revenue of Euro 0.5 million and incurred costs of Euro 6.3 million in the 1 January 2017 - 31 March 2017 period, and hold trade receivables of Euro 0.2 million and trade payables of Euro 12.5 million.

Transactions with affiliates refer primarily to:

- the concession contract between Cairo Pubblicità and Torino FC S.p.A. (a subsidiary of U.T. Communications) for the sale of advertising space at the Olimpico football pitch and promotional sponsorship packages. This contract resulted in the payment in 2017 of Euro 0.6 million to the concession holder against revenue of Euro 0.8 million net of agency discounts. Cairo Pubblicità earned further commissions of Euro 19 thousand;
- the agreement between Cairo Communication S.p.A. and Torino F.C. for the provision of administrative services such as bookkeeping, which provides for an annual consideration of Euro 100 thousand.

Equity transactions with “other affiliates” refer primarily to:

- financing transactions and lease contracts with Mediobanca Group companies, a RCS shareholder with a stake exceeding 3%, to which current and non-current financial liabilities are attributable totaling Euro 13.5 million and financial expense of Euro 0.4 million in the 1 January 2017 - 31 March 2017 period;
- commercial relations with the Unipol Sai, Della Valle and Pirelli Groups, RCS shareholders with stakes exceeding 3%, in respect of which Group companies generated revenue of Euro 0.9 million and incurred costs of Euro 0.1 million in the 1 January 2017 - 31 March 2017 period, and hold trade receivables of Euro 1.4 million.

In 1Q17, transactions with related parties, including with Group companies, were not considered to be atypical or unusual, and were part of the ordinary activities of Group companies. These transactions were carried out on market terms, taking account of the goods and services provided.



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The approval of the financial statements at 31 December 2016 coincides with the expiry of the term of office of the Board of Directors of the Company, appointed by the Shareholders' Meeting of 19 April 2014. The Shareholders' Meeting of 8 May 2017 appointed the new Board and resolved on its remuneration. At the date of preparation of this Interim Management Report, no remuneration has yet been approved pursuant to art. 2389, par. 3, of the Italian Civil Code.

In 1Q17, Cairo Communication and its subsidiaries other than those belonging to the RCS Group, paid Directors, Statutory Auditors, General Managers and Key Management Personnel fees totaling Euro 0.7 million.

In the 1 January 2017 - 31 March 2017 period, the RCS Group paid Directors, Statutory Auditors, General Managers and Key Management Personnel fees totaling Euro 1.2 million.

During the year, no transactions were carried out with members of the Board of Directors, general managers and/or with key management personnel, members of the Board of Statutory Auditors, and the financial reporting manager, further than the fees paid and already shown in this Note.

Commitments to key management personnel are reported for Euro 2.7 million and to other related parties for Euro 1.0 million.

### ***11. Events occurring after 1Q17 and business outlook***

Following the end of the quarter, the Shareholders' Meeting of 8 May 2017 appointed for a three-year term, therefore expiring with the approval of the financial statements for the year ending 31 December 2019, based on the two lists submitted by U.T. Communications S.p.A. - holding a 33.95% interest in the share capital of the Company - and by a pool of shareholders formed of asset management companies and other investors<sup>7</sup> - holding a total interest of 4.13% in the share capital of the Company,

- the Board of Directors of the Company, composed by:

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(<sup>7</sup>) They include: Aletti Gestielle SGR S.p.A., manager of the following funds: Gestielle Obiettivo Italia, Gestielle Italy Opportunity and Gestielle Obiettivo Europa; Anima SGR S.p.A. manager of the Anima Star Italia Alto Potenziale fund; Arca Fondi SGR manager of the Arca Economia Reale Equity Italia fund; Ersel Asset Management SGR S.p.A. manager of the Fondersel PMI fund; Eurizon Capital SGR S.p.A. manager of the following funds: Eurizon Progetto Italia 20, Eurizon Progetto Italia 70, Eurizon Azioni Italia, Eurizon Azioni PMI Italia and Eurizon Progetto Italia 40; Eurizon Capital SA manager of the following funds: Eurizon Fund - Equity Europe LTE, Eurizon Fund - Equity Italy and Eurizon Fund - Equity Small Mid Cap Italy; Kairos Partners SGR S.p.A. as management company of Kairos International SICAV — segments: Pegasus, Italia, Risorgimento and Target Italy Alpha; Mediolanum Gestione Fondi SGR S.p.A. manager of the following funds: Mediolanum Flessibile Italia, Mediolanum Flessibile Strategico and Mediolanum Flessibile Sviluppo Italia; Mediolanum International Funds - Challenge Fund - Challenge Italian Equity; Zenit Multistrategy Sicav and Zenit SGR S.p.A. manager of the following funds: Zenit Pianeta Italia and Zenit Obbligazionario.



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- three executive directors: Urbano Cairo, Chairman, Uberto Fornara and Marco Pompignoli,
  - three non-executive directors: Antonio Magnocavallo, Roberto Cairo and Maria Laura Cairo, and
  - five independent directors: Paola Mignani, Marella Caramazza, Daniela Bartoli, Massimo Ferrari and Giuseppe Brambilla di Civesio;
- the Board of Statutory Auditors, composed by three Standing Auditors, Michele Paolillo, Chairman, Marco Moroni and Gloria Francesca Marino, and by two Alternate Auditors, Laura Guazzoni and Domenico Fava.

At its meeting of 8 May 2017, the Board of Directors of Cairo Communication S.p.A. also granted:

- to the Chairman Urbano Cairo the main executive and managerial powers (except for specific powers that the Board has reserved itself, in addition to those that cannot be granted according to law);
  - to the CEO Uberto Fornara the powers for the management and development of advertising sales and of the relevant staff and sales network;
  - to Marco Pompignoli the responsibility of overseeing and supervising the administration, finance and management control functions;
- approved the guidelines on the execution of significant transactions;
- appointed:
- the members of the “Control and Risk Committee”, composed by non-executive directors Paola Mignani (independent) (Chairman), Daniela Bartoli (independent) and Antonio Magnocavallo,
  - the members of the “Remuneration and Appointments Committee”, composed by independent directors Marella Caramazza (Chairman), Daniela Bartoli and Giuseppe Brambilla di Civesio,
  - the members of the “Related Party Committee”, composed by independent directors Massimo Ferrari (Chairman), Paola Mignani and Marella Caramazza.

Against a persistently uncertain backdrop, in 1Q17:

- the relaunch of RCS continued, whose margins rose sharply versus 1Q16, with a gross operating profit (EBITDA) of approximately Euro 14.8 million<sup>8</sup> and operating profit (EBIT)

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<sup>8</sup> Mention should be made that RCS adopts a different definition of EBITDA from the one used by the Cairo Communication



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of approximately Euro -0.6 million in the consolidated financial statements of Cairo Communication, up by approximately Euro 16.5 million and Euro 16.9 million<sup>9</sup>, respectively, versus 1Q16, in line with the forecasts on 2017 performance targets, thanks mainly to the strong commitment towards cutting costs and pursuing opportunities to increase and develop revenue;

- the Cairo Editore magazine publishing segment posted highly positive results, achieved high circulation levels of the publications and continued to work on improving the levels of efficiency reached in containing costs (production, publishing and distribution);
- the TV publishing segment La7 achieved a positive gross operating profit of Euro 0.2 million up versus 2016 (Euro 31 thousand).

In the following months of 2017, the Cairo Communication Group, with regard to the scope of its traditional activities, will continue to:

- pursue the development of its Cairo Editore publishing segment and advertising sales segment, for Cairo Editore, continuing its development strategy by the possible launch of new publications aimed at attracting market segments with greater potential and strengthening and developing the results of recently launched publications. In these segments, despite the economic and competitive backdrop, given the high quality of the publications and of the media under concession, the Group considers it a feasible target to continue to achieve positive operating results;
- work towards developing its activities in the TV publishing segment, forecast to achieve a positive gross operating profit (EBITDA) also in 2017, up versus 2016.

Regarding RCS, on the approval on 9 May 2017 of the Interim Management Report at 31 March 2017, the RCS directors announced that, in the absence of unforeseeable events at this time, the 2017 targets are confirmed, including EBITDA of approximately Euro 140 million<sup>10</sup>, thanks, on the one hand, to the ongoing commitment to cutting costs, with expected efficiencies for 2017 between Euro 42 million and Euro 46 million, and, on the other, to the development of

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Group, as indicated in the above section “Alternative Performance Indicators”. As a result of these differences, which lie in the provisions for risks and in the allowance for bad debt impairment, amounting to Euro 2.7 million in the quarter - EBITDA shown in the RCS Interim Management Report at 31 March 2017, approved on 9 May 2017, amounted to Euro 12.1 million

<sup>9</sup> Comparison based on the RCS Interim Management Report at 31 March 2017, approved on 9 May 2017 and available on the website [www.rcsmediagroup.it](http://www.rcsmediagroup.it).

<sup>10</sup> Mention should be made that RCS adopts a different definition of EBITDA from the one used by the Cairo Communication Group, as indicated in the above section “Alternative Performance Indicators”



revenue through greater focus on advertising sales on its product portfolio, to the strengthening of publishing activities, by improving the editorial content in newspapers and magazines and the relating websites with focus on product quality, and by increasing revenue from the organization of sporting events, and a growth in net profit.

However, developments in the overall economic climate and in the core segments could affect the full achievement of these targets.

For the Board of Directors  
Chairman Urbano Cairo



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***Declaration, pursuant to art 154-bis paragraph 2 of Legislative Decree no. 58 of 24  
February 1998 (T.U.F.)***

The Financial Reporting Manager of Cairo Communication S.p.A., Marco Pompignoli, declares, pursuant to art. 154-bis, par. 2, of the Consolidated Finance Law, that the accounting information contained in this document is consistent with the underlying accounting documents, books and records.

Financial Reporting Manager  
Marco Pompignoli